

AMENDED IN ASSEMBLY JUNE 22, 2006

AMENDED IN SENATE AUGUST 24, 2005

AMENDED IN SENATE AUGUST 22, 2005

AMENDED IN SENATE JULY 11, 2005

SENATE BILL

No. 1011

Introduced by Senator Florez

February 22, 2005

An act to ~~add Section 8880.24.5 to~~ amend Sections 8880.4 and 8880.321 of the Government Code, relating to the California State Lottery, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

SB 1011, as amended, Florez. California State Lottery: *multistate lottery*.

(1) The California Constitution prohibits lotteries and the sale of lottery tickets. However, the California State Lottery Act of 1984, enacted by initiative, authorizes a California State Lottery; to be operated and administered by the California State Lottery Commission and the Director of the California State Lottery, with certain limitations. The act requires that at least 50% of lottery revenues be returned to the public in the form of prizes, at least 34% be allocated to benefit public education, and no more than 16% be allocated for lottery expenses.

~~Existing law requires the California State Lottery Commission to exercise all powers necessary to effectuate the purposes of the California State Lottery Act of 1984. Existing law further requires the commission to promote and ensure the integrity, security, honesty, and fairness in the operation and administration of the state lottery.~~

~~This bill would authorize the commission to enter into a multistate lottery agreement if the multistate lottery does not conduct certain activities that the bill would prohibit. Specifically, the bill would prohibit the commission from conducting or joining any international lottery or any Internet-based lottery, unless approved by a majority vote of the electorate require that at least 50% of multistate lottery revenues be allocated to the public in the form of prizes, at least 42% of multistate lottery revenues be allocated to benefit public education, and no more than 8% of multistate lottery revenues be allocated for lottery expenses.~~

(2) *The California State Lottery Act of 1984 gives a player the right to claim prize money for 180 days after a lottery drawing.*

This bill would give a player one year to claim prize money won in a multistate lottery game.

(3) *The California State Lottery Act of 1984 provides that none of its provisions may be changed, except to further its purpose by a bill passed by a 2/3 vote of each house of the Legislature and signed by the Governor.*

This bill would declare that its provisions further the purposes of the act.

~~(3)~~

(4) *This bill would include a statement of legislative ~~finding~~ findings and declarations.*

~~(4)~~

(5) *This bill would declare that it is to take effect immediately as an urgency statute.*

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 *SECTION 1. The Legislature finds and declares the*
2 *following:*

3 *(a) The people of California, on November 6, 1984, passed*
4 *Proposition 37, an initiative measure to amend the California*
5 *Constitution to authorize the establishment of the California*
6 *State Lottery.*

7 *(b) The express purpose of the California State Lottery is to*
8 *provide additional funds to education without the imposition of*
9 *additional or increased taxes.*

1 (c) Proposition 37 created the Lottery Commission to promote
2 and ensure the integrity, security, honesty, and fairness in the
3 operation and administration of the lottery. The commission was
4 given broad powers to effectuate its mission.

5 (d) On February 8, 2005, the commission delegated authority
6 to the lottery director to enter an agreement with other states for
7 the California State Lottery's participation in the Mega Millions
8 multistate lottery game.

9 (e) On May 26, 2005, the commission incorporated rules for
10 the operation of Mega Millions into its California Lotto
11 Regulations. In June 2005, the California State Lottery began
12 operating Mega Millions in California pursuant to the Amended
13 and Restated Mega Millions Official Game Rules, Finance and
14 Operations Procedures for Mega Millions and Mega Millions
15 On-Line Drawing Procedures.

16 (f) Mega Millions rules permit claim periods in accordance
17 with the state law governing each Mega Millions party lottery.
18 Lottery players who purchase a ticket through the California
19 State Lottery for play in the Mega Millions game are permitted to
20 claim prize money within a period of 180 days after the drawing.
21 If the players do not claim the prize money within that period, the
22 prize money reverts to the benefit of education.

23 (g) However, of the 12 party lotteries, five have a claim period
24 of a year from the date of drawing before prize money may revert
25 to other public purposes, such as education.

26 (h) In the case of *California Coalition Against Gambling*
27 *Expansion v. California State Lottery Commission* (Sup. Ct.
28 *Sacramento County*, 2006, No. 05CS00984), the court recognized
29 a conflict between California's 180 day claim prize requirement
30 and participating state lotteries with a claim period of up to a
31 year.

32 (i) The court found that in circumstances where a prize winner
33 in a state that allows prizes to be claimed after 180 days, "each
34 party lottery's share of the prize money would not be returned to
35 the party lottery; California would lose the money for public
36 education; and subdivision (e) of [S]ection 8880.321 would be
37 effectively violated."

38 (j) In order to protect the integrity of the Mega Millions game
39 and California's participation in Mega Millions, it is necessary
40 for the Lottery Act to be amended to allow prize winners to claim

1 *the Mega Million jackpot or grand prize for up to one year of the*
2 *drawing as a remedy suggested by the court.*

3 *SEC. 2. Section 8880.4 of the Government Code is amended*
4 *to read:*

5 8880.4. Revenues of the state lottery shall be allocated as
6 follows:

7 (a) Not less than 84 percent of the total annual revenues from
8 the sale of state lottery tickets or shares shall be returned to the
9 public in the form of prizes and net revenues to benefit public
10 education.

11 (1) Fifty percent of the total annual revenues shall be returned
12 to the public in the form of prizes as described in this chapter.

13 (2) At least 34 percent of the total annual revenues shall be
14 allocated to the benefit of public education, as specified in
15 Section 8880.5. However, for the 1998–99 fiscal year and each
16 fiscal year thereafter, 50 percent of any increase in the amount
17 calculated pursuant to this paragraph from the amount calculated
18 in the 1997–98 fiscal year shall be allocated to school districts
19 and community college districts for the purchase of instructional
20 materials, on the basis of an equal amount per unit of average
21 daily attendance, as defined by law, and through a fair and
22 equitable distribution system across grade levels.

23 (3) All unclaimed prize money shall revert to the benefit of
24 public education, as provided for in subdivision (e) of Section
25 8880.32.

26 (4) All of the interest earned upon funds held in the State
27 Lottery Fund shall be allocated to the benefit of public education,
28 as specified in Section 8880.5. This interest is in addition to, and
29 shall not be considered as any part of, the 34 percent of the total
30 annual revenues that is required to be allocated for the benefit of
31 public education as specified in paragraph (2).

32 (5) No more than 16 percent of the total annual revenues shall
33 be allocated for payment of expenses of the lottery as described
34 in this chapter. To the extent that expenses of the lottery are less
35 than 16 percent of the total annual revenues, any surplus funds
36 also shall be allocated to the benefit of public education, as
37 specified in this section or in Section 8880.5.

38 (b) Funds allocated for the benefit of public education
39 pursuant to subdivision (a) are in addition to other funds
40 appropriated or required under existing constitutional

1 reservations for educational purposes. No program shall have the
2 amount appropriated to support that program reduced as a result
3 of funds allocated pursuant to subdivision (a). Funds allocated
4 for the benefit of public education pursuant to subdivision (a)
5 shall not supplant funds committed for child development
6 programs.

7 (c) None of the following shall be considered revenues for the
8 purposes of this section:

9 (1) Revenues recorded as a result of a nonmonetary exchange.
10 “Nonmonetary exchange” means a reciprocal transfer, in
11 compliance with generally accepted accounting principles,
12 between the lottery and another entity that results in the lottery
13 acquiring assets or services and the lottery providing assets or
14 services.

15 (2) Reimbursements received by the lottery for the cost of
16 goods or services provided by the lottery that are less than or
17 equal to the cost of the same goods or services provided by the
18 lottery.

19 (d) Reimbursements received in excess of the cost of the same
20 goods and services provided by the lottery, as specified in
21 paragraph (2) of subdivision (c), are not a part of the 34 percent
22 of total annual revenues required to be allocated for the benefit of
23 public education, as specified in paragraph (2) of subdivision (a).
24 However, this amount shall be allocated for the benefit of public
25 education as specified in Section 8880.5.

26 (e) *Notwithstanding this section or Section 8880.5, total*
27 *annual revenues of the state lottery received from its*
28 *participation in any multistate lottery shall be allocated as*
29 *follows:*

30 (1) *Not less than 42 percent to benefit public education.*

31 (2) *Not less than 50 percent to the public in the form of prizes.*

32 (3) *Not more than 8 percent for payment of administrative*
33 *costs related to participation in a multistate lottery.*

34 SEC. 3. *Section 8880.321 of the Government Code is*
35 *amended to read:*

36 8880.321. The commission shall promulgate regulations to
37 establish a system of verifying the validity of prizes and to effect
38 payment of the prizes, provided that:

39 (a) For convenience of the public, lottery game retailers may
40 be authorized by the commission to pay winners of up to six

1 hundred dollars (\$600) after performing validation procedures on
2 their premises appropriate to the lottery game involved.

3 (b) No prize may be paid arising from tickets or shares that are
4 stolen, counterfeit, altered, fraudulent, unissued, produced or
5 issued in error, unreadable, not received or not recorded by the
6 lottery by applicable deadlines, lacking in captions that confirm
7 and agree with the lottery play symbols required by the lottery
8 game involved, purchased by a minor, or not in compliance with
9 additional specific rules and regulations and confidential
10 validation and security tests appropriate to the particular lottery
11 game. The lottery may pay a prize even though the actual
12 winning ticket is not received by the lottery if the lottery
13 validates the claim for the prize based upon substantial proof.
14 “Substantial proof” means any evidence that would permit the
15 lottery to use established validation procedures, as specified in
16 lottery regulations, to validate the claim.

17 The commission may require that any form relating to a claim
18 for a prize shall be signed under penalty of perjury. This
19 declaration shall meet the requirements of Section 2015.5 of the
20 Code of Civil Procedure.

21 (c) No particular prize in any lottery game shall be paid more
22 than once.

23 (d) The commission may specify that winners of less than
24 twenty-five dollars (\$25) claim the prizes from either the same
25 lottery game retailer from whom the ticket or share was
26 purchased or from the lottery itself.

27 (e) Players shall have the right to claim prize money for 180
28 days after the drawing or the end of the lottery game or play in
29 which the prize was won, *or, if a multistate lottery game, up to*
30 *one year*. The commission may define shorter time periods for
31 eligibility for participation in, and entry into, drawings involving
32 entries or finalists. If a valid claim is not made for a prize directly
33 payable by the commission or for any on-line game prize within
34 the period applicable for that prize, the unclaimed prize money
35 shall revert to the benefit of the public purpose described in this
36 chapter.

37 (f) After the expiration of the claim period for prizes for each
38 lottery game, the commission shall make available a detailed
39 tabulation of the total number of tickets or shares actually sold in
40 a lottery game and the total number of prizes of each prize

denomination that were actually claimed and paid directly by the commission.

(g) A ticket or share shall not be purchased by, and a prize shall not be paid to, a member of the commission, any officer or employee of the commission, any officer or employee of the Controller who is designated in writing by the Controller as having possible access to confidential lottery information, programs, or systems, or any spouse, child, brother, sister, or parent of that person who resides within the same household of the person. Any person who knowingly sells or purchases a ticket or share in violation of this section, or who knowingly claims or attempts to claim a prize with a ticket or share that was purchased or sold in violation of this section, is guilty of a misdemeanor.

(h) No prize shall be paid to any person under the age of 18 years. Any person who knowingly claims or attempts to claim a prize with a ticket or share purchased by a person under the age of 18 years is guilty of a misdemeanor.

SEC. 4. The Legislature finds and declares that this act furthers the purposes of the California State Lottery Act of 1984, enacted by Proposition 37 at the November 6, 1984, general election.

SEC. 5. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to protect the integrity of the California State Lottery, and in an effort to ensure that California's schools make full use of the revenues received from the Mega Millions multistate lottery game, it is necessary that this act take effect immediately.

~~SECTION 1. The Legislature finds and declares the following:~~

~~(a) The people of California, on November 6, 1984, passed Proposition 37, an initiative measure to amend the California Constitution to authorize the establishment of the California State Lottery.~~

~~(b) The express purpose of the California Lottery is to provide additional funds to education without the imposition of additional or increased taxes.~~

1 ~~(e) Proposition 37 established a detailed statutory scheme for~~
2 ~~governing the lottery's conduct by enacting the California State~~
3 ~~Lottery Act of 1984, commonly known as the Lottery Act. It~~
4 ~~created the Lottery Commission to promote and ensure the~~
5 ~~integrity, security, honesty, and fairness in the operation and~~
6 ~~administration of the lottery.~~

7 ~~(d) On February 8, 2005, the California State Lottery~~
8 ~~Commission voted to enter into a contract with other state~~
9 ~~lotteries to join Mega Millions – a multistate lottery – even though~~
10 ~~there is no provision of the Lottery Act that expressly authorizes~~
11 ~~the participation of the California State Lottery in a multistate or~~
12 ~~multinational lottery.~~

13 ~~(e) The California State Lottery is one of only two state~~
14 ~~lotteries out of the twelve Mega Million members that does not~~
15 ~~have express statutory authority to enter into a multistate lottery~~
16 ~~agreement; the other state lottery, New Jersey, has provided~~
17 ~~broad statutory powers to the commission of the state lottery.~~

18 ~~(f) The legal foundation underpinning the Commission's~~
19 ~~decision to enter into a multistate lottery game is in question. A~~
20 ~~complaint has been filed in state court against the Lottery's~~
21 ~~participation in Mega Millions (California Coalition Against~~
22 ~~Gambling Expansion, et al. vs. California State Lottery~~
23 ~~Commission, et al.), alleging that the Lottery Commission is not~~
24 ~~authorized to participate in the Mega Millions game because that~~
25 ~~participation was not approved by the Legislature, and otherwise~~
26 ~~violates the Lottery Act in that the commission cedes substantial~~
27 ~~control over the game to outside persons. The filing of the~~
28 ~~lawsuit caused immediate controversy, including editorials,~~
29 ~~particularly from the Los Angeles Daily News, calling for~~
30 ~~legislative action.~~

31 ~~(g) Section 5 of the Lottery Act provides that “no provision of~~
32 ~~this Act may be changed except to further its purpose by a bill~~
33 ~~passed by a vote of two-thirds of the membership of both houses~~
34 ~~of the Legislature and signed by the Governor.”~~

35 ~~(h) Given the California State Lottery's strict regulatory~~
36 ~~scheme, the lack of expressed statutory authority to enter into a~~
37 ~~multistate lottery agreement and facing a compelling legal~~
38 ~~complaint, the Lottery Commission has placed the integrity and~~
39 ~~reputation of the California State Lottery in jeopardy.~~

1 ~~(i) In order to protect the integrity and reputation of the~~
2 ~~California State Lottery from further controversy or future legal~~
3 ~~complaints, it is necessary for the Lottery Act to be amended to~~
4 ~~provide the California State Lottery with express statutory~~
5 ~~authority to enter into a multistate lottery game and to set forth~~
6 ~~the conditions for such an agreement.~~

7 ~~SEC. 2. Section 8880.24.5 is added to the Government Code,~~
8 ~~to read:~~

9 ~~8880.24.5. (a) The commission may enter into a multistate~~
10 ~~lottery agreement if the multistate lottery does not conduct any~~
11 ~~activity prohibited in subdivision (b):~~

12 ~~(b) The commission may not conduct, or join any other lottery~~
13 ~~or organization that conducts, any of the following games~~
14 ~~without a majority vote of the electorate:~~

15 ~~(1) An international lottery.~~

16 ~~(2) An Internet-based lottery.~~

17 ~~SEC. 3. The Legislature finds and declares that this act~~
18 ~~furtheres the purposes of the California State Lottery Act of 1984,~~
19 ~~enacted by Proposition 37 at the November 6, 1984, general~~
20 ~~election.~~

21 ~~SEC. 4. This act is an urgency statute necessary for the~~
22 ~~immediate preservation of the public peace, health, or safety~~
23 ~~within the meaning of Article IV of the Constitution and shall go~~
24 ~~into immediate effect. The facts constituting the necessity are:~~

25 ~~In order to protect the integrity of the California State Lottery,~~
26 ~~and in an effort to ensure that California's schools make full use~~
27 ~~of the revenues received from the Mega Millions multistate~~
28 ~~lottery game, it is necessary that this act take effect immediately.~~